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DEPARTMENT FOR EEB/TPP/ABT/ATP: JANET SPECK
SIPDIS

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SUBJECT: IMPACT OF RISING FOOD/COMMODITY PRICES -
FINLAND

REF: STATE 39410

¶1. The following is Embassy Helsinki's response to
reftel regarding the impact of rising food/commodity
prices in Finland. Post has done no previous
reporting on this subject.

DEMAND

¶2. The most important agricultural commodities
consumed in Finland are milk, meat and grains, and the
most significant agricultural products produced are
milk, meat, eggs, cereals and potatoes. Finland is
self-sufficient in milk and milk products, as well as
in meat and eggs. The degree of self-sufficiency in
grain varies, depending on the harvest. Price
developments on the domestic market for these products
have been consistent with international price
developments. Prices of wheat have increased by 70
percent in the past 12 months, barley prices 63
percent, rye and oatmeal 30 percent, milk prices 14
percent, pork prices 11 percent and beef prices are
about 6 percent higher. According to the Finnish Tax
Payers' Association, food prices rose overall by an
average of seven percent year-on-year in April 2008.

¶3. In Finland peaks in food prices occur three times a
year, as the food industry conducts price negotiations
with retailers every four months, with the first
agreement being made in early January and the next
around first of May. While Finnish grains production
benefits from the high price levels, economical
benefits in meat and milk production are offset by
high feed costs, caused by the high prices on grains.

¶4. Higher prices on grains, meat and milk have led to
higher food prices in Finland. Rising food prices are
starting to affect the buying habits of Finns.
According to a poll by Finnish regional daily
Aamulehti, 25 percent of Finns have started to reduce
the consumption of meat, pastries and sweets, whereas
consumption of bread, fruit and vegetables have been
largely unaffected by the rising prices.

SUPPLY

¶5. In 2007/2008, total grains area in Finland amounted
to 1,130,000 hectares, a small decrease compared to
the year before. In 2008/2009, an increase of about 5
percent is expected due to favorable prices.

¶6. Finland's largest milk processor Valio increased
the producer price for milk by five cents per liter in
May. This is the third successive increase within 12
months, as last autumn the producers received an
additional three cents per liter, and at the turn of
the year another five cents. Price adjustment is
needed to ensure that dairy farming remains viable in

Finland, and Valio has pledged that the increase will be shifted directly to milk producers.

¶7. Last year around one thousand dairy farms in the country ended operations. Not all closed down because of financial problems. They say that it is impossible to find enough people willing to work the long hard hours that dairy farming demands.

POLITICAL IMPACT

¶8. In August 2007, the Finnish meat industry took a positive stance on the use of GMOs (Genetically Modified Organisms) by abandoning its voluntary ban on Genetically Modified (GM) feed. The decision was taken as a response to the rising prices of non-GM feed. The decision was met with unexpectedly strong media reactions in Finland which caused the Finnish Minister of Agriculture, Sirkka-Liisa Anttila, to call for voluntary labeling of meat from animals fed with GM feed. The major part of Finnish feed use is still GM free, but further rising feed prices might increase incentives for using cheaper GM feed.

ECONOMIC IMPACT

¶9. Finland's inflation rate has surged this spring due to the rise in global food prices and energy prices, but the rate is expected to come down as economic activity weakens. In April, inflation slowed down to 3.5 percent from the 3.9 percent observed in March 2008 due to lower vegetable prices and more moderate price increases for liquid fuels, the National

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Statistics Agency reported. On an annual basis higher housing and food costs fueled price rise pressure, while cheaper cars and computers curbed inflation.

¶10. Finland, which has long aimed to smooth out significant class differences in its generous welfare state, has experienced growing income disparity in recent years, leaving the poor trailing ever further behind. Charities report that in the space of just one month, from March to April this year, the number of people queuing for food and other assistance had doubled to more than 1,000 people. Higher food prices bring longer breadlines as increasing numbers of people in the Helsinki region and other areas queue up for free food. About two tons of European Union food aid is distributed to the poor in Finland each year. In addition to the EU, private helpers distribute food donated by shops and companies in different parts of the country.

ENVIRONMENTAL IMPACT

¶12. Rising food prices have so far had no environmental impact in Finland. However, higher food prices could hurt Baltic Sea water quality says Markku Ollikainen, University of Helsinki Environmental and Resource Economics Professor. Ollikainen fears the sharp rise in food prices in recent months could start a sequence of events in motion that might sharply increase the amount of nutrient emissions polluting the Baltic Sea. The rise in food prices is partly the result of increased demand, which leads to an increase in the amount of arable land, and growth in raising domestic animals, both of which directly increase nutrient emissions. Ollikainen estimates that Finnish fields emit an average of 11 kilos of nutrients per hectare into the Baltic Sea, but adds that the nutrients emanating from Finnish agriculture are nevertheless a fairly minor factor in the whole Baltic equation, with the exception of coastal areas.

GOVERNMENT POLICY RESPONSE

¶13. As a member of the European Union, Finland adheres to EU legislation on agriculture. In order to balance the European grains market, the EU has removed the mandated set aside requirement of 10%. Other measures include a temporary suspension of import duties on grains.

¶14. Value Added Tax (VAT) on food is set to decrease from 17 percent to 12 percent in the autumn of 2009, as outlined by the government program. The Center Party has urged the government to accelerate plans to cut taxes on food and stated that this should be a higher priority than cutting income taxes, as inflation and the global food crisis have put a serious dent in consumer purchasing power.

¶15. In March 2008 Finland responded to the World Food Program's (WFP) urgent appeal for additional donations to alleviate the world's food shortage, and in addition to the general cash allocation of 9.25 million USD, announced an additional donation of 9.25 million USD for humanitarian assistance through the WFP.

IMPACT ON POST PROGRAMS

¶16. Post has no outward-focused programs that would be affected.

POLICY PROPOSALS

¶17. None

BARRETT